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EX PARTE OR LATE FILED

May 19, 1998

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
1919 M Street, NW, Room 222  
Washington, D.C. 20554

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MAY 19 1998

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

RE: Ex Parte Meeting  
CC Dkt. No. 98-24 Application of AT&T Corporation and Teleport  
Communications Group, Inc. for Transfer of Control.

Dear Ms. Roman Salas:

On May 18, 1998, Ron Charles, Karen Itzkowitz, Al Lewis and the undersigned, all of AT&T Corp. ("AT&T"), Manning Lee of Teleport Communications Group, Inc. ("TCG"), and David Lawson, of Sidley & Austin, met with Bill Dever, Claudia Fox, Michael Pryor, Florence Setzer and Alex Starr of the Common Carrier Bureau's Policy Division.

During the meeting the participants discussed comments, reply comments and ex parte comments filed in the above-captioned proceeding and issues relating to the proposed transfer of control of TCG's licenses to AT&T. AT&T and TCG provided the Commission participants with updates on the status of other regulatory approvals and confirmed the very low local market shares of AT&T and TCG, the existence of multiple access alternatives to TCG's facilities, and the limited internet backbone presence of AT&T and TCG. AT&T and TCG provided the Commission participants with recent AT&T and TCG annual reports and Securities and Exchange Commission form 10-Ks, and a diagram of TCG's internet backbone facilities, copies of which are attached here.

With regard to regulatory approvals, AT&T and TCG noted that twenty-one of the twenty-three state commissions whose prior review is required have already approved the proposed merger. The Public Service Commission of the District of

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Columbia and the New York Public Service Commission have yet to complete their review of the merger but are expected to shortly.

Two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's rules.

Sincerely,

*Barry J. Brady*

Attachments

cc: B. Dever  
C. Fox  
M. Pryor  
F. Setzer  
A. Starr

MCI/Worldcom

CC Docket No. 97-211

Excerpt from Petition to Deny and Request for Hearing by  
"Simply Internet, Inc."

The following table summarizes the current IBPs with more than 1% of the total percentage of Internet backbone connections provisioned to ISPs:

COMPANY	# OF CONNECTIONS	% OF MARKET (Pre-Merger)
MCI	1689	29.4%
Sprint	1298	22.6%
WorldCom (UUNET, CIS, ANS)	1091	19%
AGIS	354	6.2%
BBN	234	4.1%
Digex	114	2.0%
CRL	106	1.8%
GoodNet	75	1.3%
iStar	71	1.2%

The data contained in this table is taken from Boardwatch Magazine, Directory of Internet Service Providers, Fall 1997 the ISP Directory. This data is voluntarily reported to Boardwatch by the vast majority of IBPs and ISPs in the United States for purposes of maintaining usable industry statistics.

List of Internet National Backbone Providers from current Boardwatch Directory (from TCG):

1. AGIS
2. AT&T
3. Bell Advanced Comminucations
4. CAIS Internet
5. Concentric Network Corporation
6. CRL Network Services
7. CWIX Cable and Wireless Internet Exchange
8. DataXchange Network, Inc.
9. DIGEX, Incorporated
10. Electric Lightwave.
11. EPOCH Networks, Inc.
12. Exodus
13. Fiber Network Solutions
14. GeoNet Communications, Inc.
15. GetNet International
16. Frontier GlobalCenter
17. GridNet International
18. GTE Internetworking/BBNPlanet
19. GTE Internetworking/Genuity
20. GTE Internetworking/Nap.Net
21. IBM Global Network
22. IDT Corp
23. Icon CMT
24. INET Solutions
25. MCI Communications
26. NETCOM
27. Netrail Incorporated
28. Priori
29. PSINet
30. PSINet Limited/iStar Internet, Inc.
31. Savvis Communications
32. Sprint IP Services
33. TCG CERFnet Services
34. Verio
35. VisiNet
36. Vnet Internet Access
37. WinStar GoodNet
38. WorldCom Inc./ANS Communications, Inc.
39. WorldCom Inc./Compuserve Network Services
40. WorldCom Inc./UUNET Technologies, Inc.
41. ZipLink

Source: boardwatch.com

# TCG CERFnet

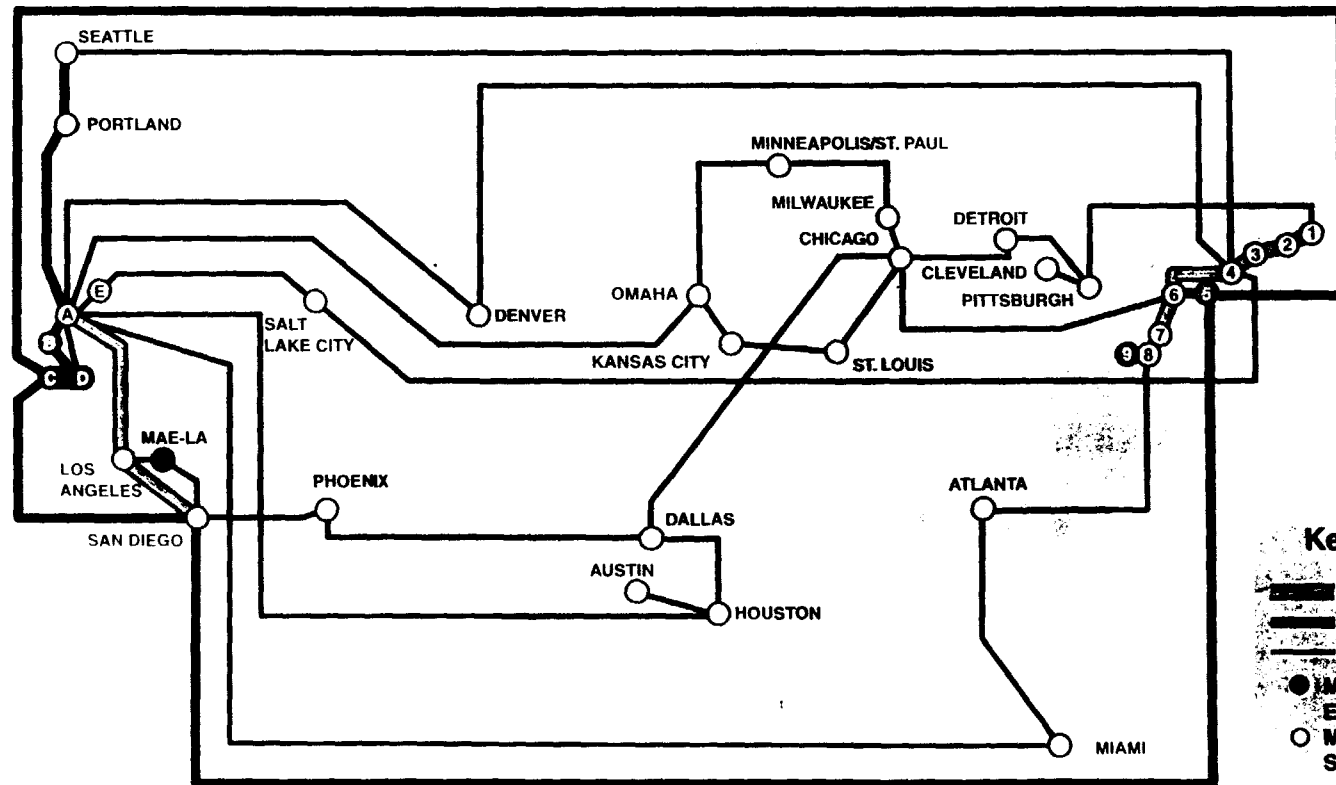
## Nationwide Backbone Infrastructure 1998

Build-out complete by MARCH 31, 1998

### Metropolitan Service Areas

Atlanta  
Austin  
Baltimore  
Boston  
Boulder  
Chicago  
Cleveland  
Dallas  
Denver  
Detroit  
Fort Worth  
Hartford  
Houston  
Kansas City  
Long Island  
Los Angeles  
Miami  
Milwaukee  
Minneapolis/St. Paul  
New York  
Newark  
Oakland  
Omaha  
Philadelphia  
Phoenix  
Pittsburgh  
Portland  
Princeton  
Providence  
Sacramento  
Salt Lake City  
San Diego  
San Francisco  
San Jose  
Seattle  
St. Louis  
Tacoma  
Trenton  
Washington DC  
Wilmington

A- SAN FRANCISCO  
B- PAIX  
C- NASA AMES/  
MAE-WEST  
D- SAN JOSE/  
MAE-WEST  
E- SACRAMENTO



- 1- BOSTON
- 2- PROVIDENCE
- 3- HARTFORD
- 4- NEW YORK
- 5- NEW YORK NAP
- 6- PHILADELPHIA/  
WILMINGTON
- 7- BALTIMORE
- 8- WASHINGTON DC
- 9- MAE-EAST

**Key**

— Core Link  
- - - Access Link

● Main/Regional Exchange Point  
○ Metropolitan Service Area

Note: Map is not to scale.

800 ISDN, 800 Dial Services,  
and CERF n'WEB  
available in all 50 States

**TCG**  
**CERFnet**

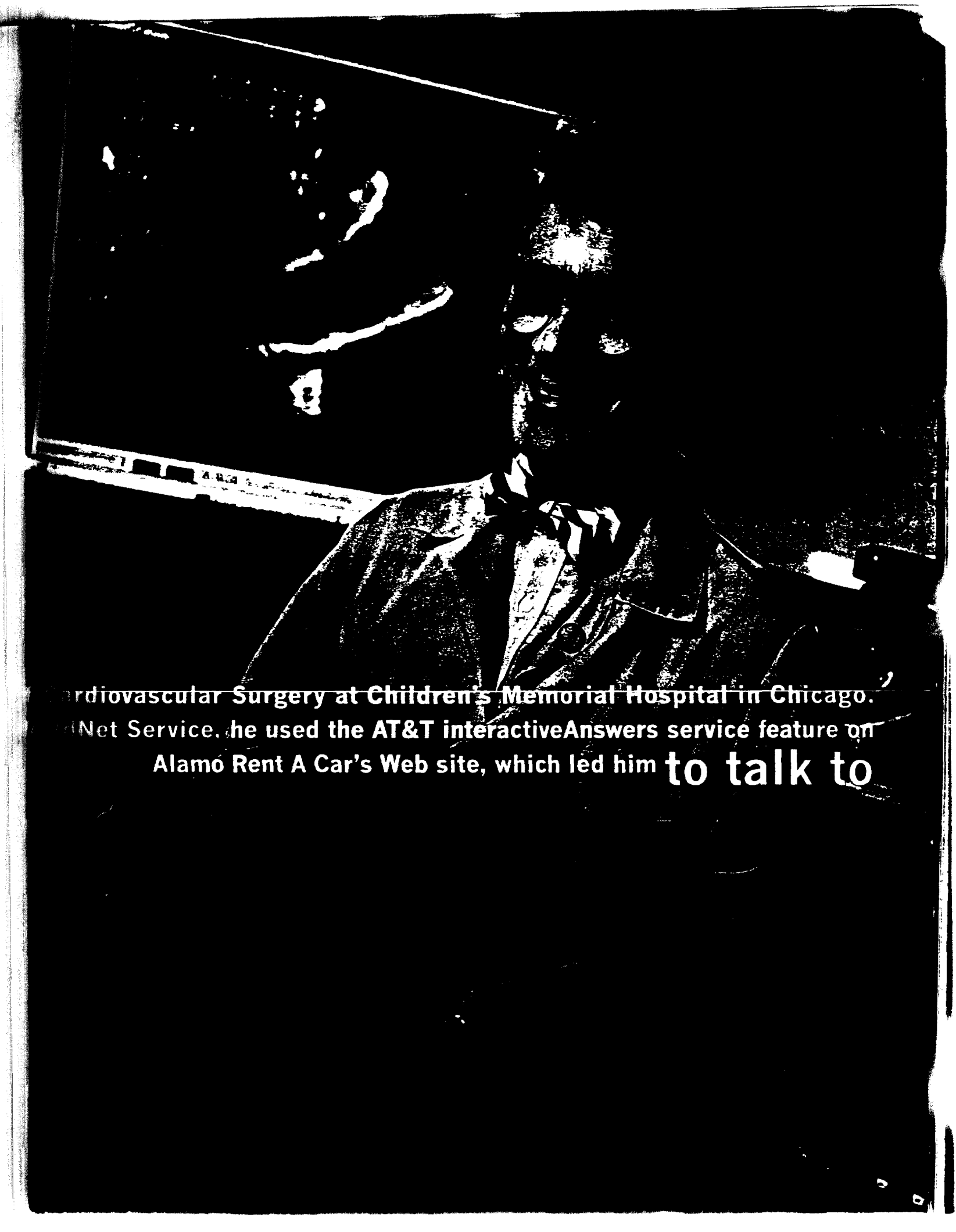
URL: <http://www.cerf.net>

+1-888-CERFNET

E-mail: [info@cerf.net](mailto:info@cerf.net)



# Listen



Cardiovascular Surgery at Children's Memorial Hospital in Chicago.  
Net Service, he used the AT&T interactiveAnswers service feature on  
Alamo Rent A Car's Web site, which led him **to talk to**

**Dr. Constantine Mavroudis**, who is the Head of  
last night, though, he felt more like a **travel agent**. Via AT& Wo



GLOBAL DATA: Joanna Evangelopoulou is playing, as any 11-year-old should. Others can take care of the hard stuff. Joanna had a serious heart problem, but she also had some of the world's best doctors – and AT&T communications technology – working for her, too. Surgeons at Aghia Sophia Children's Hospital in Athens used a pioneering AT&T telemedicine link to exchange scientific opinions and data with Children's Memorial Hospital in Chicago, more than 5,400 miles away. AT&T high-speed global data services allow doctors to exchange video images of sufficient clarity to make critical diagnoses on tiny hearts.

AT&T offers a wide range of data services to businesses of all sizes around the world. These services allow users to quickly transmit large volumes of data – locally and globally – that are critical to day-to-day operations. Insurance companies, financial services firms and other businesses count on AT&T's highly reliable data services around the clock for such applications as transferring files and records, holding multipoint videoconferences and conducting large-scale electronic messaging sessions.

**power user** whose life was saved by a team of doctors, many of  
global data services that made it all possible for Joanna's echocardiograms to be  
diagnosed in a city **far from her home by**



**Joanna Evangelopoulos** happy 11-year-old

whom neither Joanna nor her parents have ever seen: It was AT&T's high-speed glo

miles and serves more businesses in more cities than any other competitive local services company. Joining forces will speed our entry into the local business market, reduce our costs and bring thousands more American businesses the "any-distance" services they've been asking for.

We'll continue working to build a marketplace that delivers the benefits of local competition to business customers, consumers and shareowners alike. But, in the meantime, we aren't standing still.

Customers tell us they want to simplify the way they do business with us, so we introduced AT&T One Rate<sup>SM</sup> Online. Customers who sign up for AT&T long-distance

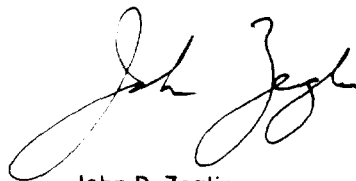
services using our Web site and agree to receive their bills online, will pay a low monthly fee and enjoy a flat rate on direct-dialed state-to-state calls made from home.

And customers want wireless service they can depend on 24 hours a day. By the end of the year, we'll offer a battery that has a two-week digital standby life and an option that allows the caller – not the recipient – to pay for wireless calls, just as in the wired world. Customers also want user-friendly Internet access service, solutions to their complex business network management problems, and global service that's as flexible and reliable as the service they enjoy in the U.S. And to do all that, they'll need the best communications network that consistently extends their business around the world. We intend to be the best at providing all this.

In 1997, we marked the end of the beginning. In 1998 – the 150th anniversary of Alexander Graham Bell's birth – we're excited about redefining the greatest communications company on earth. We're building a customer-driven, commitment-driven company – one where change is a motivator, and nothing is worse than being left behind. We're on the offense, and it's the right place to be.



**C. Michael Armstrong**  
Chairman and Chief Executive Officer



**John D. Zeglis**  
President

In the long-distance market, competitors buy wholesale service for resale at discounts of 50-60 percent. However, the Bell Companies offer an average discount of only 22 percent for so-called "Total Service Resale." This 22 percent discount for local wire resale is far short of what's needed to justify investment for local competition. So no one is investing today. As a result, the incumbents' share of the local exchange market remained virtually unchanged throughout 1997.

When and where we have an economically fair playing field, AT&T will invest and compete for local exchange opportunities. In the near term, our efforts for residential customers will focus on leasing and reusing elements of the local companies' networks – if these companies will price those elements fairly, as the Telecom Act requires. We'll also continue to explore exciting alternative technologies such as wireless and broadband.

But the longer the benefits of the Telecom Act are delayed, the longer the American consumer will pay the price. Exorbitant access charges are just one form that price takes.

Access charges are the fees the incumbents levy to carry long distance calls over that one wire into the home. They account for about 30 percent of the average customer's long distance bill.

One benefit of the Act was to reduce those charges through competition, bringing them closer in line with the incumbents' actual costs of providing access. AT&T will work with regulatory and legislative authorities to deliver lower consumer prices through access charge reduction as soon as possible.

Business customers, too, want the benefits of a competitive marketplace. Here, there are some opportunities to deliver choice through wires other than the incumbents'. Earlier this year, we signed a definitive merger agreement with Teleport Communications Group, Inc. (TCG), one of this country's premier competitive local services companies. In TCG, AT&T found a great strategic match. TCG has local networks in 66 major cities; it has more fiber route



This annual report would not be complete without acknowledging the contributions of Robert E. Allen, who retired as chairman and CEO November 1, 1997, after almost a decade of leadership.

Bob will always stand tall as a leader whose personal integrity and commitment to AT&T knew no limits.

Indiana-bred, he went to work for AT&T the same month he graduated from Wabash College, June 1957. After working 25 years in the AT&T of the old Bell System, Bob spent the rest of his career moving the company into the new world of global competition that opened up as AT&T left the regulated utility world of the Bell System behind.

History handed Bob Allen a challenge, and he never looked back. He leaves AT&T with our deep respect and gratitude.

Listening to them has defined our vision: *Build shareowner value by providing "universal communications services" that put our customers in touch with the people or information they need, whenever they want, wherever they are, in the form most useful to them, and at a competitive price.*

Guided by that vision, we focused on three priorities:

Competitive costs; Invest for growth in five areas – local services, wireless services, Internet services, outsourcing and networking integration, and global markets;

Implement a future-proof network architecture. (A detailed discussion of our priorities and how we're addressing them begins on page 20.)

To shape our strategy, AT&T's new leadership team came together with determination, renewed energy and a shared sense of purpose. Whether we were addressing where we were, or where we had to be, we quickly found common ground.

Achieving AT&T's vision on behalf of our customers and shareowners will take sustained focus, strength, execution and balance.

It means that we tie our energy, our resources and our near term objectives to those critical few priorities, and we deliver on our commitments.

No company can continue to invest and grow unless it's cost-competitive. Recently, we announced an aggressive plan to achieve a competitive cost position through further targeted expense reductions, improved cycle time and workforce downsizings – with 25 percent fewer corporate officers, accompanied by a salary freeze for senior executives. We intend to reduce selling, general and administrative expenses from 29 percent of revenues in 1997 to 22 percent of revenues

by year-end 1999. This represents a reduction of \$1.6 billion this year alone.

It means meeting our commitments and surpassing customer expectations. Executing to meet all of our customers' communications needs is *what we are*.

We can – and will – sustain both value and growth. With a strong balance sheet, executed and pending divestments expected to generate about \$6.7 billion in cash, and a double "A" credit rating, we have the financial depth to invest for growth. In addition, with a competitive cost structure, we will be able to add value, through improving earnings per share and cash flow.

As we were preparing to enter local markets this year – as enabled by the Telecommunications Act of 1996 – the Regional Bell Operating Companies decided to take local competition out of the marketplace and into the courtroom. They are challenging the constitutionality of the Telecom Act and its authority to establish national communications policy.

The intent of Congress and the Act will be either confirmed or redefined by this litigation, but it will delay our entry into local services, as well as the Bell Companies' entry into long distance. The only activity we expect in 1998 is on a state-by-state basis, and we will compete state by state if and where the economics permit us.

The issue – whether state-by-state or national – is the "one and only wire" that connects consumers to the telephone system. To implement large-scale local telephone competition in America, that wire must be shared and sold on an economically viable basis to justify local investment.

The economically viable resale of AT&T's long-distance wires was the basis of long-distance deregulation and competition some 15 years ago. And it worked. Today there are 500 companies providing long-distance service, and AT&T's market share has dropped from virtually 100 percent to approximately 50 percent.

# Dear Shareowners

Some tough work is behind us with much more ahead. We've set a new direction and seen it endorsed by our owners and customers. But the anticipation around AT&T these days centers on what we will deliver.

This may have been how Winston Churchill felt back in 1942, after the British victory at El Alamein in North Africa. "This is not the end," he said. "This is not even the beginning of the end. But it is perhaps the end of the beginning."

For AT&T, 1997 was indeed "the end of the beginning." We'd completed the large task of divestiture. The job before us in our first full year as the new AT&T was both ambitious and necessary. We set out to redefine ourselves as a company, to position ourselves strategically and financially, and to demonstrate to the world in clear and tangible ways that we were capable of doing what we said we would.

Not surprisingly, the road wasn't always smooth. Pressure on earnings was intense due to both a dynamic competitive marketplace and a cost structure that was far too high. AT&T's second-quarter financial results were a low-water mark, as unacceptable to us as to you. But as the year went on and we got our "sea legs," the picture began to change.

We continued to divest nonessential assets and businesses. We launched an attack on our costs and continued to focus and redirect our investment in strategic growth initiatives. Earnings improved steadily through the last two quarters of the year as cost reductions began to take hold. Our debt-to-equity ratio is at an all-time low.

With "the end of the beginning" finally behind us, where do we go from here? We decided to let our customers answer that question.



Figures in Millions (except per share amounts)

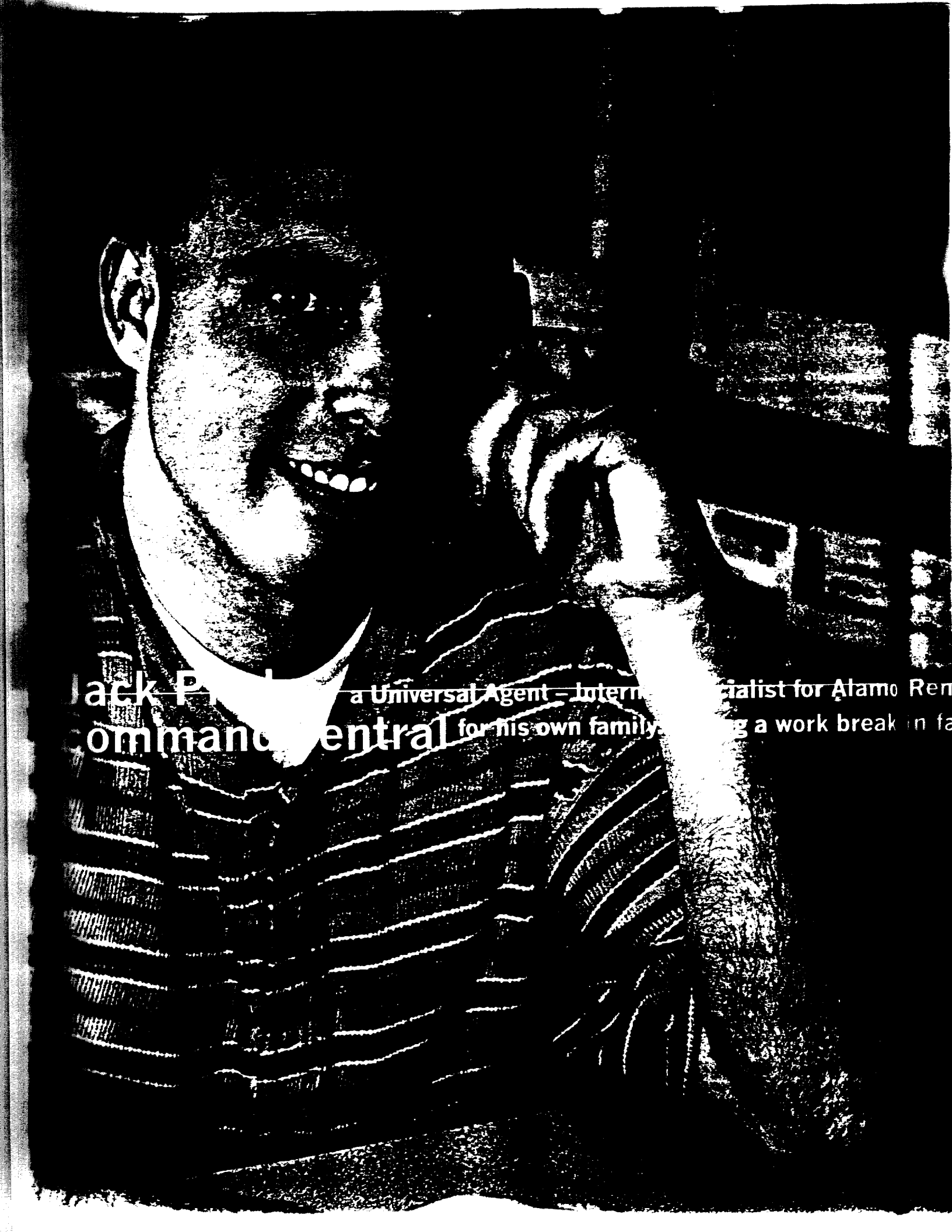
Revenues	\$51,313	\$50,546
Operating income	\$ 6,968	\$ 8,763
Income from continuing operations	4,472	5,573
Net income	4,638	5,908
Income from Continuing Operations		
Core	\$ 3.69	\$ 4.04
Initiatives	(.95)	(.59)
Total	\$ 2.74	\$ 3.45
Net income	2.84	3.66
Cash flow from operations	\$ 8,437	\$ 7,875
Gross capital expenditures	\$ 7,213	\$ 6,776

AT&T is the world's premier voice and data communications company, serving more than 90 million customers, including consumers, businesses and government. With annual revenues of more than \$51 billion and some 128,000 employees, AT&T provides services to more than 250 countries and territories around the world.

AT&T runs the world's largest, most powerful long-distance network and the largest digital wireless network in North America. The company is a leading supplier of data and Internet services for businesses as well.

AT&T provides outsourcing, consulting and networking, integration services to large businesses. And the company offers outbound local calling to businesses in 49 states and remains committed, as conditions permit, to delivering local telephone service to consumers.

AT&T's businesses are backed by the research and development capabilities of AT&T Labs, which is working to create the information services and communications network of tomorrow.



Jack P. ... a Universal Agent - Intern... Specialist for Alamo Ren...  
Command Central for his own family... a work break in fa...

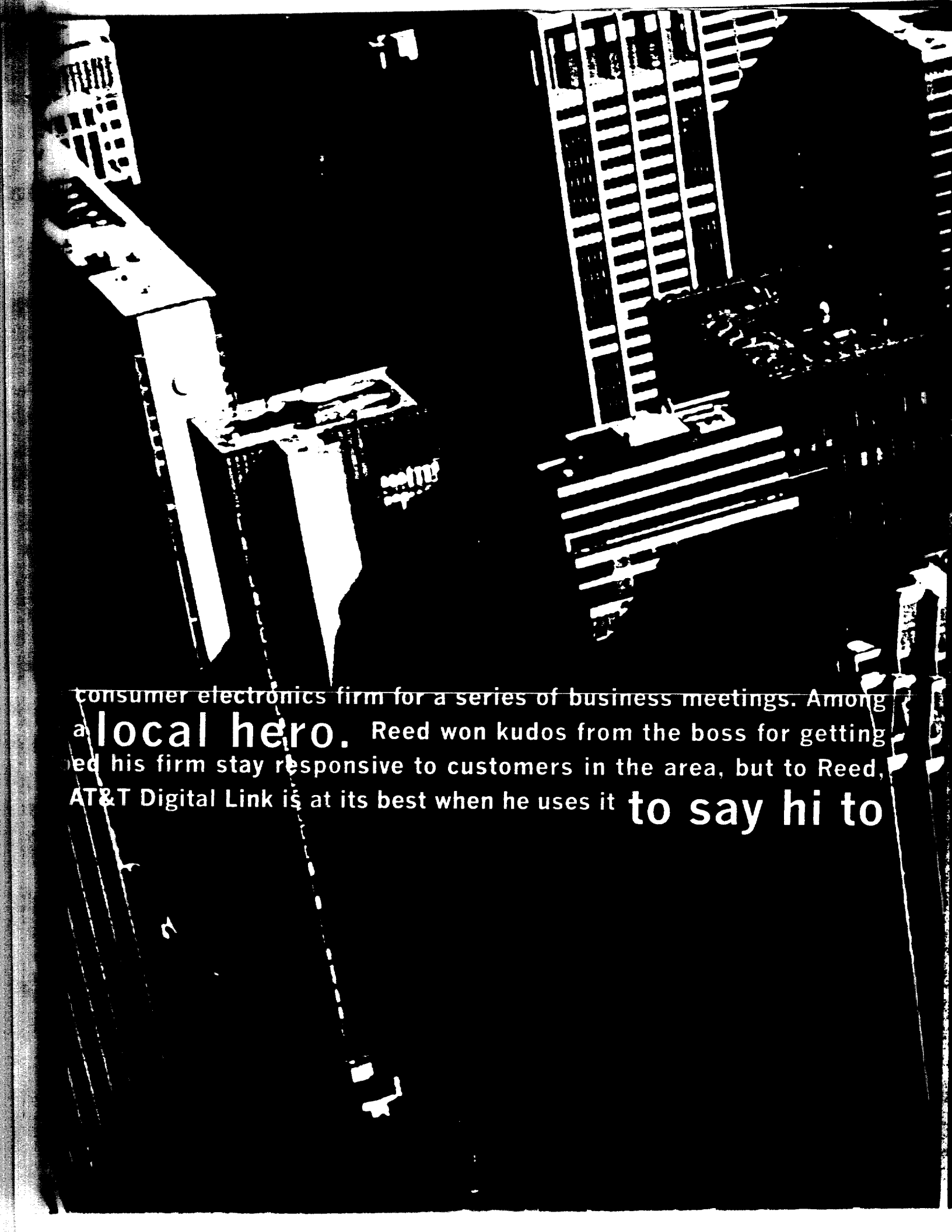


...ed for Jack, who often feels like  
his wireless phone to call

...to be aggregated, billed and discounted as part of a company's long-distance services contract. Additionally, all calls are covered by the same sophisticated network management features many companies currently enjoy with their AT&T long-distance services.

...1999. AT&T will become a...  
...services...  
...efforts to bring end-to-end communications services to U.S. business. With some 3,000 route miles of fiber-optic facilities, TCG has more fiber route miles and serves more businesses in more cities than any other competitive local exchange carrier. In fact, TCG operates high capacity, state-of-the-art digital networks in 66 metropolitan areas, including 29 of the 30 largest. Synergies from the merger are expected to generate more than \$1 billion in operating income in 1999.

...ork office of  
...Services and  
...The service has hel



consumer electronics firm for a series of business meetings. Among  
a **local hero.** Reed won kudos from the boss for getting  
ed his firm stay responsive to customers in the area, but to Reed,  
AT&T Digital Link is at its best when he uses it **to say hi to**



## Sarah Herrington

...niece, who's at ...ng New York Uni  
of all that her AT&T Campus Card lets her do, from ... access to cam  
handy when research for a paper led Sarah to call an informant in ... Men

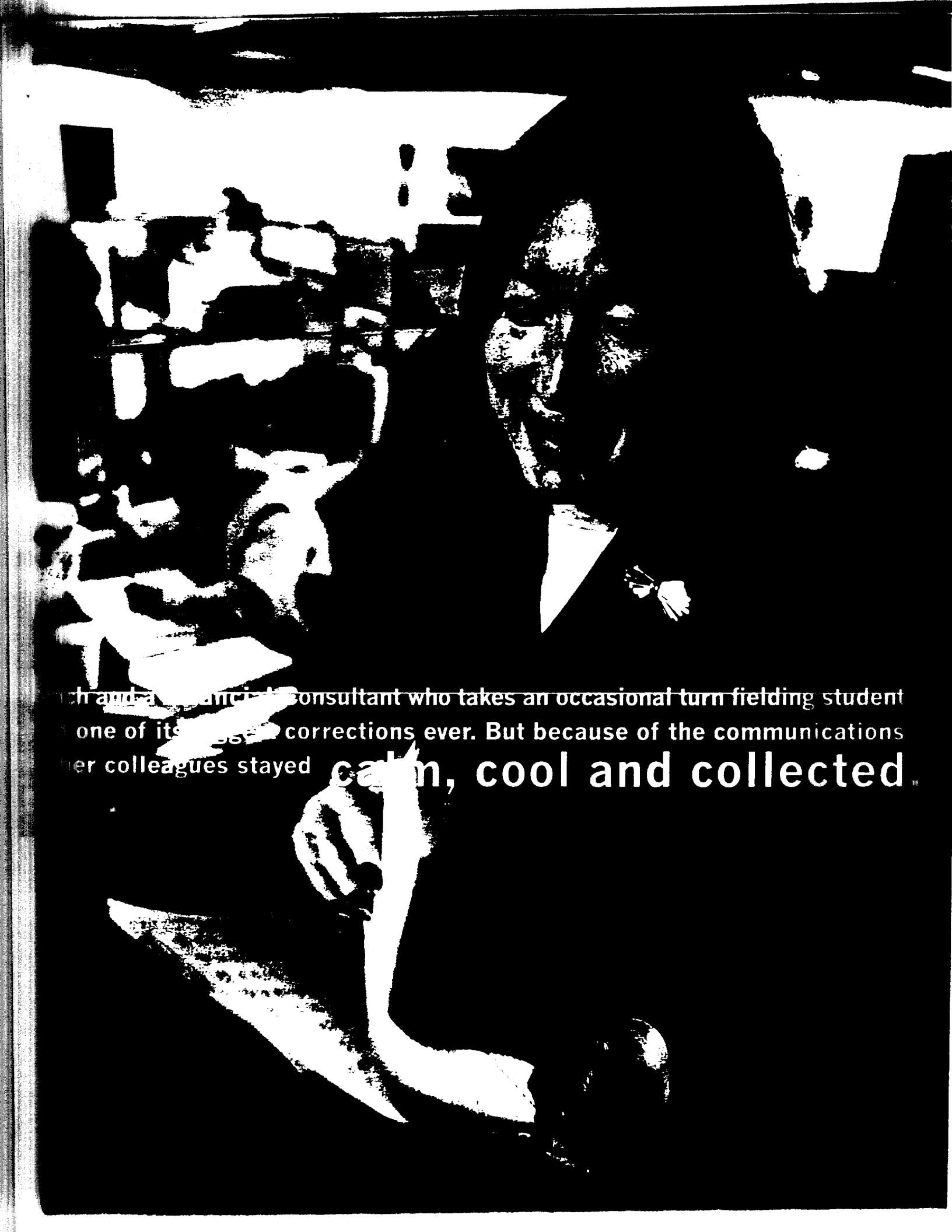
vers systems expert, and because  
pus things in buying lunch. And it's talking card capability came in  
rill resulting in a conversation with

AT&T's Barbara S. Samuelson, a financial consultant and Vice President at Merrill Lynch, can remember October 27, 1997. The day included the largest one-day price drop in Dow Jones Industrial Average history, as well as an automatic 30-minute halt under rules designed to prevent a panic. It also was the day that Merrill's 14,000 financial consultant employees in some 660 Merrill Lynch offices in the United States were able to stay in contact with their customers, while many other financial services were in overload mode. Because Merrill Lynch has a data transmission network developed in conjunction with AT&T and provisioned and managed by AT&T Solutions. The customized service is on a platform that supports Merrill's voice and data networks and security

firewalls, and a system to measure network response time that kicked in at the critical moment on October 27.

AT&T Solutions is a unit of AT&T that provides professional services around the world to Global 2000 clients through four practices: Consulting, Networking, Integration, Outsourcing, and MultiMedia Call Centers. Backed by AT&T Labs and other parts of AT&T, AT&T Solutions professionals conceive, plan and implement networking-based solutions that link business strategy, processes and technology to meet clients' current and future needs. Our professional services combine proven business analysis and planning skills with the research know-how and track record of AT&T in designing, building and managing robust global systems to conduct commerce in a digital world.

**Barbara Samuelson**, a 20-year veteran at Merrill Lynch, can remember October 27, 1997, the day Wall Street had a historic price drop. Because of the system managed by AT&T Solutions, she and the rest of



ch and a financial consultant who takes an occasional turn fielding student  
one of its biggest corrections ever. But because of the communications  
her colleagues stayed **calm, cool and collected**™

## AT&T Strategy Overview

AT&T has embarked on a strategy to fulfill a distinct vision (see below). It is a strategy constructed on a unique and extraordinarily strong foundation:

We're the world's leading long-distance provider, with some 90 million customers; more than \$22 billion in 1997 business services sales, fueled in part by a booming data services business, and nearly \$24 billion in 1997 consumer services revenue.

We're the top U.S. wireless-services provider – with more than \$4 billion in 1997 wireless services sales – and in the No. 1 position in total customers, digital customers, footprint (geographic coverage area) and markets served.

We have the largest, most sophisticated communications network in the world, which handles an average of a quarter of a billion call attempts each business day.

retirement program for management employees. AT&T also has frozen the salaries of the company's top 450 executives and will reduce officer ranks by 25 percent.

Invest for Growth. We're investing for growth in five areas: wireless, local, Internet, AT&T Solutions and global services.

Wireless – We built 10 new digital wireless networks in 1997, so we now provide Digital PCS service in 24 of the nation's 25 top wireless markets. We can offer the industry's only tri-mode phones (850 MHz digital, analog and 1.9 GHz digital), which will allow us to provide broader digital coverage than anyone else and superior call quality. This year, we will introduce a phone with two weeks of digital standby battery life between charges. AT&T also plans to trial and implement a "caller pays" option for its customers. AT&T's Wireless Office Service (untethered communications for businesses)



**Our Vision:** Build customer value by providing them with the information they need, whenever they want it.

We have the resources of world-renowned AT&T Labs which averages two patent filings every business day.

With this foundation as a starting point, we've established three strategic priorities to reach our vision: Achieve a competitive cost position; Invest for growth; Implement a "future-proof" network architecture.

We've committed to reducing selling, general and administrative (SG&A) expenses from 29 percent of revenues in 1997 to 22 percent by the end of 1999, representing a decrease of \$1.6 billion in 1998 alone. A significant percentage of the savings will come by decreasing the size of the workforce in our long-distance business by 15,000 to 18,000 people over the next two years – primarily through a voluntary early

has been so successful, AT&T is conducting trials that will make it easier for customers to use wireless phones for all communications, beyond traditional mobility applications.

Local – For businesses, AT&T Digital Link connects customers directly to our toll switches for local calling capabilities. In 1997, AT&T Digital Link was available to customers in 49 states for outbound calling. And our entry into the business local-services market will be vastly accelerated once our pending merger with TCG is finalized in the second half of 1998.

And we remain committed to offering consumers local services when economically feasible. Our short-term efforts will focus on vigorously pressing for conditions and prices for unbundled network elements – such as the wires between people's homes and the central office. (As this annual



report goes to press, there is uncertainty because of litigation initiated by local phone companies constraining access to appropriately priced network elements.) In the longer term, we'll continue to investigate a variety of alternative technologies, including mobile spectrum, fixed wireless, broadband cable and power transmission lines.

**Internet** – Our new AT&T WorldNet Voice has a limited market trial set for the second quarter of 1998. This entrée into Internet telephony – supported by the work of AT&T Labs – will carry calls over AT&T's Internet backbone network, with good sound quality, at a competitive price of less than 10 cents per minute. With another new service, AT&T One Rate Online, customers who sign up for AT&T long-distance services using our Web site – <http://www.att.com/> – and agree to receive their bills

local and wide-area networks, private branch exchanges, voice-processing systems, and voice and data terminals. AT&T Solutions has earned nearly \$5 billion in long-term contracts in little more than three years of existence.

**Global** – AT&T continues to focus on serving multinational corporations and global travelers, creating a worldwide network and expanding its North American franchise in Canada and Mexico. AT&T's international business must provide multinational customers with the same service capabilities outside the United States as they enjoy in the U.S., including customer care, transmission rate, functionality and reliability. Our partner arrangements are doing better than competitors in this regard, but we are committed to doing even more in the global arena to deliver on the potential and meet customers' needs.



online will pay a low monthly fee, and enjoy a flat rate on direct-dialed state-to-state calls made from home. Additionally, AT&T is making it easy for businesses to build intranets and extranets for reliable and secure communications with employees, customers and suppliers. And AT&T currently provides hosting services to nearly 7,500 business customers.

**AT&T Solutions** – AT&T Solutions provides multinational corporations linked professional services and seamless solutions that maximize the competitive advantage of network-based electronic commerce applications. AT&T Solutions provides clients customized information technology solutions using state-of-the-art tools to operate and manage voice, data, video and Internet/intranet services, including

We've announced dramatic plans to "future proof" our network for voice, data, image and Internet calling, and provide our network architecture with cost efficiencies and new technology.

With the architecture, AT&T will be able to handle any type of traffic a customer has, in unlimited amounts, well into the next millennium. We're greatly boosting the capacity of our nearly 41,000 route miles of fiber installed in the United States through a new SONET (Synchronous Optical Network) photonics technology. The system increases the transmission capacity of our existing network by a factor of 10 without having to lay any additional fiber-optic cable.